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CANADIAN AUTOMOBILE CHAMBER OF COMMERCE *Incorporated*

Telephone 924-8108

One Hundred and Sixty Bloor Street East, Toronto 5, Ontario

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January 17th, 1964.

The Secretary,
The Ontario Committee on Taxation,
88 University Avenue,
TORONTO 1, Ontario.

Dear Sir:

The Canadian Automobile Chamber of Commerce has made a submission to the federal Royal Commission on Taxation in which we proposed the establishment of a National Purchase Tax on New Goods for Private Consumption, or, in short, a National Commodity Tax. A copy of this submission is enclosed for your information.

Our submission proposed that the National Commodity Tax be placed upon the price paid by the end consumer. The Ontario retail sales tax is already applied at this level. We further proposed that the National Commodity Tax should replace the present federal sales tax and provincial sales taxes. We recommended provision for unconditional and conditional exemptions similar to those in effect in Ontario. We proposed, however, that all used goods be exempt from tax where tax has been paid once.

The uniformity of tax base, rules and regulations, for which the National Commodity Tax provides, would remove the present inconsistencies between federal and provincial sales taxes and would promote greater efficiency in collection and auditing.

In the attached brief we review more fully the National Commodity Tax and the changes which it would entail in the form of the Ontario retail sales tax.

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Members

American Motors (Canada) Limited • Chrysler Canada Ltd. • Ford Motor Company of Canada, Limited • General Motors of Canada, Limited
International Harvester Company of Canada, Limited • Studebaker of Canada, Limited • Volvo (Canada) Ltd.

The Secretary,
The Ontario Committee on Taxation January 17th, 1964.

There is one other matter which we wish to bring to the attention of the Committee but which does not lend itself to inclusion in our attached brief on sales tax. The members of the Canadian Automobile Chamber of Commerce urge that Ontario become a party to the federal-provincial collection agreement on corporate income tax. The present practice of requiring duplicate returns, appeals, refunds and re-assessments and separate payments has no apparent significance. Unless there is reason of which we are not aware we respectfully recommend this unnecessary duplication of work be eliminated.

If there is any other way in which we can assist in the work you are doing please let me know.

Yours sincerely,

T. W. Totten,
Chairman, Taxation Committee

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A B R I E F

to the

O N T A R I O C O M M I T T E E O N T A X A T I O N

proposing a

NATIONAL PURCHASE TAX ON NEW GOODS FOR PRIVATE CONSUMPTION

presented by

THE CANADIAN AUTOMOBILE CHAMBER OF COMMERCE

January, 1964

CANADIAN AUTOMOBILE CHAMBER OF COMMERCE

Foreword

The Canadian Automobile Chamber of Commerce is the association of Canadian motor vehicle manufacturers. The object of the C.A.C.C. is to develop and foster the interests of the Canadian motor vehicle manufacturing industry.

Any Canadian manufacturer of motor vehicles may apply for membership. The present members are:-

American Motors (Canada) Limited ..... Brampton, Ontario
Chrysler Canada Ltd. ..... Windsor, Ontario
Ford Motor Company of Canada, Limited ..... Oakville, Ontario
General Motors of Canada, Limited ..... Oshawa, Ontario
International Harvester Company of Canada, Limited. Hamilton, Ontario
Studebaker of Canada, Limited ..... Hamilton, Ontario
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CANADIAN AUTOMOBILE CHAMBER OF COMMERCE

1. The purpose of this brief is to suggest a more efficient and equitable form of sales tax. It is not our intention to discuss the merits of a sales tax as compared to an income tax or other forms of taxation. Our recommendations are based upon the following principles or assumptions:

- A certain proportion of government revenue will be obtained from a sales tax;
- the purpose of a sales tax is to raise revenue not to curtail spending;
- a sales tax should not inflict undue hardships on the individual and in particular on certain classes of individuals;
- a sales tax should not affect domestic competition as between domestic goods and goods manufactured abroad or affect the buying pattern of consumers in any other way;
- a sales tax should not in any way affect the competitiveness of Canadian goods in export markets.

2. The problem of the relationship of federal and provincial sales taxes has assumed greater importance as the number of provinces levying the tax has increased. Today there are different levels of tax applications at different rates under different rules in nine jurisdictions. It is necessary to compute and collect tax at two different levels and at rates which vary from province to province. The

CANADIAN AUTOMOBILE CHAMBER OF COMMERCE

federal authority and each of the provinces levying a sales tax have their own administrative machinery. Nothing whatsoever is gained by this duplication of administrative work. Unnecessary administrative expense and nuisance for the taxpayers result. To overcome this problem some form of standardization of federal-provincial retail sales taxes is essential together with consolidation of the collecting agencies.

Recommendations

3. Based upon the principles stated above we propose that there be established a "National Purchase Tax on New Goods for Private Consumption". The short title we suggest might be the 'National Commodity Tax.'

4. The National Commodity Tax would allow for federal-provincial participation in a standardized tax. This tax would replace the present federal sales tax.

5. We propose that, as at present in Ontario, the tax would be collected at the retail level on the price paid by the private or end consumer, but it would be applied to new goods only with the exception of goods purchased conditionally exempt and then resold to a private consumer. In this instance the tax would be applied to the resale price.

6. We recommend that the tax be collected by the federal government which would act for the province. We suggest that the provincial government could set the rate of tax necessary to meet its needs and that this rate would simply be added to that set by the federal government. The same basic format could be used as has been adopted in the corporation and personal income tax collection agreement between the federal and certain provincial governments.

7. 'The National Purchase Tax on New Goods for Private Consumption', as we have outlined it, would remove the business problems incurred in having various administrative bodies controlling the tax application and collection. Furthermore, there should be substantial savings in having one collection and auditing agency where the base, the rules and the regulations are the same across Canada.

8. The National Commodity Tax would provide uniformity of sales tax base, which we have already indicated as an important principle in that a sales tax should not affect the competitiveness of one product with another which is the case at present under the federal sales tax at the manufacturer's level.

9. The rate of that part of the National Commodity Tax set by the federal government would be somewhat lower than the present 8% plus 3% old age security tax since consumer prices are higher than those of manufacturers. Possibly a tax of 5% plus 2% old age security tax at the consumer level would provide the federal government the same revenue as obtained at present.

10. The purpose of establishing conditional exemptions from sales tax is to reduce pyramiding of taxes to a practical minimum, and, while ensuring ease of administration, to assist Canadian goods to compete with products manufactured in other parts of the world.

11. The National Commodity Tax could be applied by the province either on its own or by entering into an agreement with the federal government. However, in order for such a tax to operate, it would be necessary for the province to accept a standardized form of tax and establish its own rate. It is not essential that the tax be applied by all provinces or that all

provinces enter into an agreement with the federal government for the collection of the tax. The tax would be collected at the point where the item is sold to a private consumer and the tax credited to the province in which the transaction is made. Mail-order goods would be considered as taxable in the province in which delivery is made.

12. The proposed National Commodity Tax would resolve many of the problems arising out of levying the federal sales tax at the manufacturer's level by:

- correcting the problem created by manufacturers selling at different levels in the marketing process, obviating the need for arbitrary tax methods such as the use of notional prices;
- eliminating the present inequality in the tax payable by Canadian manufacturers as compared to importers of similar goods of like value;
- resolving the tax problem of used goods by eliminating the trade-in principle used in Ontario and exempting used goods where it can be shown that the tax has been paid once;
- avoiding the problem raised by leasing equipment, as such goods purchased or manufactured for lease would be subject to tax in the hands of the lessor since they are not for resale.

A SUBMISSION

to the

ROYAL COMMISSION ON TAXATION

proposing a

NATIONAL PURCHASE TAX ON NEW GOODS FOR PRIVATE CONSUMPTION

presented by

THE CANADIAN AUTOMOBILE CHAMBER OF COMMERCE

September 1963

CANADIAN AUTOMOBILE CHAMBER OF COMMERCE

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CANADIAN AUTOMOBILE CHAMBER OF COMMERCE

Summary

This submission treats only with commodity taxes. It is divided into three parts:

Part I Statement of Principles

Part II Basic Problems

Part III Recommendations.

Part III proposes the establishment of a "National Purchase Tax on New Goods for Private Consumption" - short title "National Commodity Tax."

We will propose that the National Commodity Tax be placed upon the price paid by the end consumer and that it should replace the present federal sales tax and provincial sales taxes. Our proposal contains provision for unconditional and conditional exemptions similar to those in effect in the federal sales tax in recent years.

The uniformity of tax base, rules and regulations, for which our proposal provides, would remove the present inconsistencies between federal and provincial sales taxes and would promote greater efficiency in collection and auditing. Moreover the National Commodity Tax, based upon the price paid by the private or end consumer, would correct the problems created by the varied levels of distribution, and, would create equity in tax paid by importers of goods and manufacturers in Canada of similar goods of like value.

CANADIAN AUTOMOBILE CHAMBER OF COMMERCE

The Excise Tax Act of Canada

Federal Sales Tax

Part I Statement of Principles

1. The purpose of this submission is to suggest a more efficient and equitable form of sales tax. It is not our intention to discuss the merits of a sales tax as compared to an income tax or other forms of taxation. Our recommendations are based upon the following principles or assumptions:

- A certain proportion of government revenue will be obtained from a sales tax;
- the purpose of a sales tax is to raise revenue not to curtail spending;
- a sales tax should not inflict undue hardship on the individual and in particular on certain classes of individuals;
- a sales tax should not affect domestic competition as between domestic goods and goods manufactured abroad or affect the buying pattern of consumers in any other way;
- a sales tax should not in any way affect the competitiveness of Canadian goods in export markets.

2. The principles are based upon an analysis of the strengths and weaknesses over the past forty-two years of Canadian sales taxes both federal and provincial. A sales tax was first levied in 1920 as a means to alleviate the financial problems of the nation consequent to World War I, its continued use

was ensured by the depression of the 1930's and then by World War II. The initial rate was 1%, and, with the exception of the period 1927 to 1931, the rate has steadily increased to the present 11% including the 3% designated for old age security. The improved budgetary position in the period 1927 to 1931 and the general unpopularity of the sales tax resulted in a gradual reduction from the 6% of 1927 to 1% in 1930, with the announced intention of eliminating the tax. The present trend is toward increased budgetary requirements and we have therefore assumed that in the future the sales tax will remain as a revenue producing tax.

3. Since 1921 the federal sales tax has contributed annually between 5.6% and 26.8% of total Federal government revenue, currently it represents 13.26%. Business is not generally concerned with the proportion of the total tax burden that is raised through a sales tax provided that the tax does not have a limiting or directing effect on consumer spending. If the revenue was not obtained from a sales tax it would have to be raised by some other form of tax.

4. A sales tax which causes undue hardship to the individual or a specific group of individuals is not in keeping with the purpose of a sales tax. The purpose, as we have already stated, is that of producing revenue. A sales tax should not alter the pattern of consumer spending or control the buying power of the consumer's dollar.

5. In the world today competitive pricing is essential. Canadian goods must compete with imported goods on the domestic market. A sales tax must not weigh more heavily on goods produced

in Canada than on similar imported goods of like value.

6. Export markets are equally important to Canada's economy and these can only be developed if our exports are competitive. To assist in achieving competitive pricing in world markets the sales tax structure in Canada must seek to avoid including a proportion of sales tax in export prices. The universal practice of exempting export goods from sales tax must be continued and if possible pyramiding of sales tax should be eliminated. We must acknowledge, however, that to eliminate pyramiding is administratively impractical and the tax structure must, therefore, ensure that the incidence of sales tax in exports is reduced to a practical minimum.

Part II Problems

7. Given that the above principles are those which are commonly acknowledged the federal sales tax poses two basic problems:

- ON WHOM SHOULD THE TAX BE LEVIED?
  - the manufacturer's customer (manufacturer's price)
  - the wholesaler's or distributor's customer (wholesale price)
  - the retailer's customer (the retail price)

- ON WHAT SHOULD THE TAX BE LEVIED?
  - on materials consumed in a manufacturing process
  - on goods purchased by a business which are not part of a manufacturing process but which are consumed in conducting the business activity
  - on goods basic to the maintenance of life
  - on used goods
  - on services

In addition to these two basic problems there is also the increasing problem of federal-provincial sales tax relationships in the form of lack of uniformity and duplication of administrative authorities.

8. The principal problem involving the federal sales tax is that of determining at what level of the marketing process the tax should be levied. At present, the federal sales tax is generally applied on the manufacturer's selling price. The tax could be applied at the wholesale level or on the price paid by the consumer at the retail level. In selecting a level for sales tax purposes, a definition of the level must be established. Unfortunately, there is no standard pattern of distribution which is common to all trades and, therefore, there is no common level on which to base a sales tax. A sale can be made by a manufacturer, an importer, a distributor, a wholesaler, a jobber, a retailer, or any combination of these levels. If a sales tax is levied at the manufacturer's level it is not possible, because of the great variety of methods of distribution, to obtain equity in the level of taxation between one manufacturer and another or between one trade and another where the method of distribution differs. Moreover, with a sales tax placed at the manufacturer's level the effect of the tax is at a maximum. Each step in the marketing process adds a percentage of profit on cost which includes tax content. Similar complications, though to a lesser degree, are encountered if the tax is placed at the wholesale level.

9. One reason for placing the federal sales tax at the

manufacturer's level has been to keep the number of taxpayers to a minimum and thereby ease the administrative burden of the tax and also the cost of collection. Today, however, the marketing process is more complex than it was thirty to forty years ago and the administrative problems encountered in any attempt to achieve equity between the infinite variations of distribution channels far outweigh any consideration as to the number of taxpayers involved.

10. In short, both a manufacturer's sales tax and a wholesale sales tax have similar basic weaknesses.

11. The third alternative, a consumer's tax, offers a greater opportunity to achieve the desired results from a sales tax, provided that the term 'consumer' is defined precisely, thus establishing the exact nature of the tax. In the broad sense of the word a manufacturer, or any other form of business endeavour, is just as much a consumer as is the private individual. Therefore, if the tax was placed on all consumers we would be taxing a part of the cost of conducting a business operation as well as taxing the end product of the operation. This pyramiding of sales tax, we have already indicated, affects pricing and consequently the competitiveness of Canadian manufactured goods at home and abroad. This we believe to be undesirable and, if possible, such pyramiding should be eliminated. To avoid the pyramiding of taxes, the term 'consumer' must be qualified. The concept is basically that of a private consumer who buys in small quantities for his own personal consumption. According to this concept all manufacturers and business operations would be exempted from paying tax on the items which form an essential part of the cost of doing business. To achieve this objective every business

operation would have to be licensed to buy on a tax exempt basis. All goods purchased exempt under license and subsequently sold for private consumption would be taxed on the sale price.

12. We recognize that the administrative problems involved in exempting all business concerns would make it impractical to consider such unqualfied exemptions. Many businesses are of a size which would better fit the concept of a private consumer even though the items they purchase are for use in the business. If all businesses were exempted the degree of abuse could be extensive. It therefore becomes necessary to modify our definition of a consumer and also the principle of eliminating the pyramiding of tax. From a practical standpoint we must recognize pyramiding can only be reduced to an administratively practical minimum and our concept of a private consumer must include private consumption by any form of business concern. Hence, we are constrained to restrict licensing of business concerns to only those engaged in the process of production.

13. The principle of reducing pyramiding of tax to a minimum can be modified in part by controlling the products exempted. This raises the second basic problem arising out of the federal sales tax - on what should the tax be levied? Some proportion of the tax on private consumption must of necessity be also collected from business concerns. There are many items which are widely used in business and for personal consumption. It would be impossible to ensure that such goods are used by a business concern and not by a private individual. Conditional exemption could be provided for goods used or consumed in the process of production but because of the wide range of goods used in a variety of production processes we must acknowledge that it is impractical to allow all forms of business endeavour to purchase such goods

exempt from tax as it is possible that abuse could be extensive. We are constrained, therefore, to limit the exemption of the goods used or consumed in the process of production to basic, primary and secondary industries. Again the principle of avoiding tax pyramiding is modified but we must recognize the practical problems while continuing to stress the necessity of obtaining revenue with minimum tax pyramiding, particularly where Canadian goods must meet world prices, at home and abroad. We conclude, therefore, that exemptions should be given to any licensed individual or firm in a basic, primary or secondary industry for the goods used or consumed in the process of production. Goods used or consumed in the process of production should include a) raw materials and manufactured items which form part of the finished product; b) machinery and apparatus, and the goods necessary for their maintenance; and c) building materials. All other goods used by industry should be subject to sales tax despite the fact that they are included in the cost of doing business. Such goods are not for resale and industry is the end consumer. Examples of such goods used in industry but subject to sales tax would be automobiles and office equipment.

14. We outlined earlier in our statement of principles that the purpose of a sales tax is to provide revenue without curtailing spending, or inflicting undue hardship, or altering the consumer buying pattern, or affecting the competitiveness of Canadian products at home or abroad. Given that these principles are acceptable it is proper to unconditionally exempt certain items from sales tax - food, fuel and water for example. This has been the practice and it seems expedient that unconditional exemption for such items should be continued, although some reduction in the range of these exemptions could be considered.

15. It is in accord with the principles noted above to exclude all used goods from sales tax where tax has been paid once. Goods originally purchased conditionally exempt and subsequently sold to a private consumer should be subject to tax. Similarly, used goods imported should be subject to sales tax.

16. Service industries have in the past been exempted from federal sales tax but generally taxed on goods consumed. We suggest that with a sales tax on the price paid by the private or end consumer it is proper to consider treating services in just the same way as we deal with the taxing of commodities. Hence, we believe that, ideally, services should be taxable except when they are provided to business concerns. Again, however, we must acknowledge the administrative complexities of taxing services. We propose, therefore, that all service industries should be treated as end consumers and taxed on goods they consume. Where a service organization also acts as a retailer it would, of course, be responsible for tax on sales to the end consumer.

17. The problem of the relationship of federal and provincial sales taxes has assumed greater importance as the number of provinces levying the tax has increased. Today there are different levels of tax applications at different rates under different rules in nine jurisdictions. It is necessary to compute and collect tax at two different levels and at rates which vary from province to province. The federal authority and each of the provinces levying a sales tax have their own administrative machinery. Nothing whatsoever is gained by this duplication of administrative work. Unnecessary administrative expense and nuisance for the taxpayers result. To overcome this problem some form of standardization

of federal-provincial retail sales taxes is essential together with consolidation of the collecting agencies.

Part III Recommendations

18. Based upon the principles stated in Part I and the fundamental problems outlined in Part II, we propose for the consideration of the Commission that there be established a "National Purchase Tax on New Goods for Private Consumption". The short title we suggest might be the 'National Commodity Tax.'

19. The National Commodity Tax would allow for federal-provincial participation in a standardized purchase tax. This tax would replace the present federal sales tax and would offer many advantages as an alternative form of tax for provincial governments.

20. We propose that the tax would be collected at the retail level on the price paid by the private or end consumer. The tax would apply to new goods only with the exception of goods purchased conditionally exempt and then resold to a private consumer. In this instance the tax would be applied to the resale price.

21. We recommend that the tax be collected by the federal government which would act for those provincial governments which levy a sales tax and are prepared to accept a uniform tax base, rules and regulations. We suggest that the provincial governments could set the rate of tax necessary to meet their needs and that this rate would simply be added to that set by the federal government. The same basic format could be used as has been adopted in the corporation and personal income tax collection agreement between the federal and provincial governments.

22. We believe that there is a certain group of items which should be unconditionally exempt. This group might include such items as food, fuel, water, and perhaps some forms of communications, all of which would need further definition.

23. We further propose that all individuals or firms operating in basic, primary or secondary industries be licensed to enable them to buy conditionally exempt goods. Any sale or diversion of a conditionally exempt item by a licensee would be subject to tax on the resale price. Conditionally exempt goods for licensed producers shall include all goods used or consumed in the process of production.

24. 'The National Purchase Tax on New Goods for Private Consumption', as we have outlined it, would remove the business problems incurred in having various administrative bodies controlling the tax application and collection. Furthermore, there should be substantial savings in having one collection and auditing agency where the base, the rules and the regulations are the same across Canada.

25. The National Commodity Tax would provide uniformity of sales tax base, which we have already indicated as an important principle in that a sales tax should not affect the competitiveness of one product with another.

26. The rate of that part of the National Commodity Tax set by the federal government would be somewhat lower than the present 8% plus 3% old age security tax since consumer prices are higher than those of manufacturers. Possibly a tax of 5% plus 2% old age security tax at the consumer level would provide the same revenue as obtained at present.

27. The purpose of establishing conditional exemptions from sales tax is to reduce pyramiding of taxes to a practical minimum, and, while ensuring ease of administration, to assist Canadian goods to compete with products manufactured in other parts of the world.

28. The National Commodity Tax can be applied by any of the provinces either on their own or by entering into an agreement with the federal government. However, they would have to agree to the standardized form of tax, and they would have to establish their own rate. It is not essential that the tax be applied by all provinces or that all provinces enter into an agreement with the federal government for the collection of the tax. The tax would be collected at the point where the item is sold to a private consumer and the tax credited to the province in which the transaction is made. Mail-order goods would be considered as taxable in the province in which delivery is made.

29. The proposed National Commodity Tax would resolve many of the problems arising out of levying the tax at the manufacturer's level by:

- Removing the present inconsistencies;
- correcting the problem created by manufacturers selling at different levels in the marketing process, obviating the need for arbitrary tax methods such as the use of notional prices;
- eliminating the present inequality in the tax payable by Canadian manufacturers as compared to importers of similar goods of like value;

- resolving the tax problem of goods sold used, by eliminating the trade-in principle incorporated in some provincial acts and exempting used goods where it can be shown that the tax has been paid once;

- avoiding the problem raised by leasing equipment, as such goods purchased or manufactured for lease would be subject to tax in the hands of the lessor since they are not for resale.

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